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AGENDA ITEM 4

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. SUBJECT:** Overview of Diversity Program
- II. PROGRAM:** Diversity Outreach Program
- III. RECOMMENDATION:** This is an information item
- IV. ANALYSIS:**

The purpose of this agenda item is to provide the members of the committee with an overview and current status of the diversity program. The Investment Committee and the Board of Administration have approved a number of diversity initiatives in the Investment Office, but an overview of the entire program has not been presented. Before proceeding further, staff requests input and feedback to assure that proposals presented address the Board's overall diversity goals.

Background

As the nation's largest public pension fund and an organization with global impact, CalPERS recognizes diversity as an important business issue. The CalPERS Board of Administration recognized this by including it in our strategic plan. As a public employer within the nation's most ethnically and culturally diverse state, CalPERS recognizes diversity as a competitive advantage that must support the broadest possible pool of talent, experience, and perspective.

Over the past decade, CalPERS has shown leadership and innovation through the creation of investment programs that take advantage of opportunities presented by the changing trends in state and national demographics.

In order to provide an enterprise focus to diversity, the position of CalPERS Diversity Outreach Program Manager was established in 2004. The position was established to be responsible for the enterprise's Diversity Outreach Program – both internal and external. Under the Manager's direction, a comprehensive Diversity Action Plan was to be developed and implemented, including both internal and external components. The internal component includes

responsibilities for the Equal Employment Opportunity Program, investigation of discrimination and sexual harassment complaints, and advocacy for and monitoring of contracts with small businesses and disabled veteran owned businesses. The external component includes outreach to the financial community to develop and promote new projects and partnerships recognizing that positive investment returns can be realized by incorporating diversity into our business strategies.

By late 2006, it was realized that the workload of addressing both internal and external issues was increasing and additional resources were necessary to meet what was required. In January 2007, resources were added to our Diversity Outreach Program resulting in two Diversity Outreach Officers – one for internal activities and one for external activities. In May 2008, the External Diversity Officer resigned and the position has remained vacant while enterprise needs were reassessed.

Current Assessment

CalPERS has made significant strides in addressing diversity, especially in recent years. Our efforts internally have been successful in not only complying with existing statutes and regulations, but in providing opportunities to staff in understanding the importance of our efforts and the Board's commitment to diversity by including a diversity component in not only our New Employee Orientation, but in our career development and leadership programs. In regard to our external program, we have reached out to many organizations, developed valuable relationships, and educated many in regard to the programs and opportunities available at CalPERS. However, we lack a coordinated effort resulting in a number of initiatives being developed and implemented in a "silo" mode. A number of our branches have made successful progress in reaching out to a wide reaching base but since we have no enterprise tracking system for diversity, we have no data gathered to support it. In Investments, the different asset classes have developed programs that result in outreach to the broadest base of investment talent. There is an opportunity for increased collaboration across asset classes. However, in order to accomplish this, there needs to be centralized coordination.

In addition, roles of the Diversity Outreach Program – both internal operations and external affairs are not clearly defined. Although the Business Connections Program concentrates on CalPERS contracts with small business owners, it is part of the internal operations component instead of external affairs. Although our external affairs component assures that we are providing opportunities to the widest pool of money managers and investment firms to obtain the best returns, the position is not part of the Investment Office.

To effectively review new investment initiatives and identify opportunities for Diversity Outreach, it is recommended that one position be established in the Investment Office to be responsible for not only for this review and identification but to provide a broad oversight function to leverage what is being done in the various asset classes. This person could also serve as a central point of contact for emerging managers or prospective emerging managers.

It is also recommended that a senior level position that has responsibility for the enterprise's overall Diversity Outreach Program that reports to the Executive Office be retained. This senior level position assures that the strategic goals adopted by the Board are carried out by developing policy, providing expertise to the program areas in implementation of those policies, and assures that practices and procedures are in compliance with existing laws.

In addition, an effective communication structure is necessary so that opportunities, challenges, and support needs are identified and addressed. To accomplish this, a Diversity Working Group could be established utilizing the Corporate Governance Working Group model. This group could be comprised of members of the Executive staff, and a member of the Board of Administration as deemed appropriate by the Board President. In addition, to assure that the Investment staff and the Diversity Outreach Program staff are on consistent paths and aware of current and pending initiatives, quarterly meetings could be held to assure knowledge transfer.

Next steps

Staff welcomes input and feedback from the Board on implementing the action plan (Attachment 1). With concurrence, staff will proceed and by March 2009, report to the Finance Committee regarding progress made on each of the following:

- Establishment of two positions responsible for diversity in the Investment Office:
 1. One position will be filled with a person who has investment knowledge
 2. One position will provide staff support
 3. Recruit to fill these positions as soon as possible
- Re-allocate the existing external diversity position to a senior level management position reporting to the Executive Office responsible for the Enterprise's Diversity Outreach Program;
- Clarification of roles and responsibilities of the Enterprise-wide program and how it coordinates with the Investment Office and other program areas;

- Establishment of a working group comprised of executive staff and a member of the Board of Administration to provide a governance structure to the program and identify opportunities, challenges, and support needs;
- Reinforcement of CalPERS' commitment to Diversity with focused Legislative Leadership, key diversity opinion leaders in the Investment field and apply public venues to express continued support;
- Updating the current Diversity Policy to reflect Board direction regarding Investment initiatives; and
- Development of an effective reporting mechanism for the annual public report to the Legislature on Diversity.

V. STRATEGIC PLAN

This is consistent with the following Strategic Goals:

- III. Sustain a high performance work culture utilizing staff development, technology, and innovative leadership and management strategies
- IV. Design and develop education and communication initiatives to ensure broad member and stakeholder understanding of CalPERS' value
- IX. Achieve long-term, sustainable, risk adjusted returns

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